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Global Agricultural Information Network

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Philippines

Dairy and Products Annual

Situation and Outlook

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Report Highlights:

The Philippines imports virtually all of its dairy products, especially milk powder, as domestic production cannot meet the country's annual dairy demand, which was nearly 2.5 million metric tons (MMT) liquid milk equivalent (LME) in 2017. Total imports in 2018 are forecast to increase to 2.7 MMT LME as traders take advantage of low global dairy prices. Dairy imports in 2019 will likely remain flat as dairy prices start to recover. Major suppliers are New Zealand (39 percent), the United States (21 percent), and Australia (7 percent). In 2017, the Philippines was the sixth largest market for U.S. dairy products by value at \$225 million and the fourth largest by volume at 125,000 MT.

Commodities:

Dairy, Milk, Fluid

Dairy, Milk, Nonfat Dry

Dairy, Dry Whole Milk Powder

Dairy, Cheese

Production:

The Philippines produces less than one percent of its total annual dairy requirement and imports the balance. Local milk production is projected to reach 24,000 MT in 2018 and will likely hit 25,000 MT in 2019 due to increasing consumer preference for fresh milk and growing local dairying capabilities. Around 63 percent of total milk produced is cow's milk while the rest is carabao milk (34 percent) and goat milk (3 percent).

Data from the National Dairy Authority (NDA) shows that local milk production (from cattle, carabao and goats) was 22,760 metric tons (MT) in 2017, up from 21,160 MT in 2016, about 14,400 MT of which was cow's milk. The value of dairy production in 2017 amounted to P809 million (\$1 million). According to the NDA, the average farmgate price of milk increased from P34.75/liter (\$0.65) in 2016 to P36.27/liter (\$0.67) in 2018. By contrast, the corresponding farmgate price of milk in the U.S. is about \$0.07/liter (\$15.40 hundred weight) as of July 2018.

In 2018, the Bureau of Agricultural Statistics estimates the country's dairy cattle herd (female dairy animals only) at 11,103, while there are 9,328 head of carabao and 7,659 of goats. Dairy cattle numbers declined slightly due to mortalities and the inability of NDA to infuse dairy animals due to the unavailability of tropical crossbreeds.

The average Philippine milk production per animal (8 liters/day) remains low mainly due to poor feed and management practices as well as high production costs and a lack of adequate dairy infrastructure. According to various sources, the average daily milk yield in the United States is around 30 liters/day and about 20 liters/day in the United Kingdom.

There are four main types of dairy farms in the Philippines: individual smallholder producers (who consume and sell locally what they produce), smallholder cooperatives (who deliver their milk to a collection point for transport to a processing plant), commercial farms (which supply processors), and government farms (which supply school and rural community feeding programs). A significant amount of the Philippine fluid milk supply is actually Ultra High Temperature (UHT) milk reconstituted from imported milk powder because of the country's cold chain challenges and limited production.

Consumption:

Annual per capita milk consumption in the Philippines is estimated at 22 kg, compared with Thailand at 26 kg, Malaysia at 52 kg, and the United States at 287 kg. With a strong economy, an expanding middle class and a growing population of roughly 104 million in 2017, the Philippines is a large and rapidly expanding market for milk and dairy products. Other factors contributing to the long-term trend

of strong growth in dairy consumption are expanding cold chain capacity, an increasing number of supermarkets, and a blossoming food processing industry.

According to NDA, one out of every three glasses of fresh liquid milk (not reconstituted from powder) consumed in the Philippines is produced locally. A Filipino family now spends a little over P4,000 (\$82) per year on dairy products.

Half of smallholder milk production goes to school and community milk feeding programs and the rest to local commercial sales or household consumption. With dairy production in the country being more community-based, maintaining the quality of fresh milk is a challenge due to the lack of processing and distribution systems, and a dependable, continuous cold chain.

Fresh fluid milk in a mid-range Manila supermarket sells for P90-120 per liter (\$1.70-\$2.20). Note: US\$1 = PhP54.18, as of October 3, 2018.

Trade:

In 2018, U.S. dairy exports by volume are expected to increase only slightly, as global dairy prices recover. As dairy prices continue to improve, U.S. dairy exports to the Philippines are expected to increase marginally in 2019. In 2017, U.S. exports to the Philippines declined minimally by volume (1 percent), but increased 7 percent in value. The Philippines was the sixth largest market for U.S. dairy products by value at \$243 million in 2017. The top U.S. dairy exports to the Philippines in 2017 were nonfat dry milk powder (\$155 million), dried whey (\$14 million) and cheese (\$28 million). The drop in 2017 dairy exports by value was due to low U.S. dairy prices. Dairy exports by volume showed an increase of 17 percent.

Philippine Dairy Imports

Dairy products are currently the country's third largest agricultural import after wheat and soybean meal. Post expects total dairy imports in 2018 to increase to 2,700 MMT (in Liquid Milk Equivalent, LME) due to low global powdered milk prices. 2019 dairy imports are forecast to remain at about the same level as prices begin to improve. According to NDA trade data, total 2017 imports of dairy products declined almost 9 percent to 2,486 MMT LME due to higher global dairy prices recorded that year.

The major suppliers to the Philippines by volume are New Zealand with a 42 percent share of total imports by volume, the United States with 20 percent, and Australia with 6 percent.

Skim Milk Powder (SMP) and Whole Milk Powder (WMP) imports comprise over 57 percent of total dairy imports. SMP imports are expected to decline in 2018 due to ample stocks. WMP imports in 2018 on the other hand, are forecast to rise due to increasing consumption and use in food manufacturing.

In 2018 liquid milk imports should continue to increase due to rising consumption and increased use in food service. Imports of butter and other dairy spreads as well as cheese should also continue to rise, mainly coming from New Zealand and Australia due to the duty-free advantage of those suppliers and

also as a result of increasing demand for the products from the expanding middle class, growing fast food industry and hotel and restaurant sectors.

VOLUME OF DAIRY IMPORTS <i>('000 MT, in LME) [1]</i>				
	2016	2017	Jan-Mar 2017	Jan-Mar 2018
1. Milk and Cream				
• Skim milk Powder	1,435.85	1,121.44	330.69	263.65
• Whole milk Powder	166.17	150.51	28.22	42.04
• Butter milk Powder	237.18	241.44	61.06	68.05
• Whey Powder	403.93	422.34	103.39	95.95
• Liquid (RTD) Milk	65.60	61.49	14.42	18.10
• Evaporated Milk	0.60	6.73	2.37	1.24
• Others	100.16	82.41	21.89	49.88
Total Milk and Cream	2,409.49	2,086.36	562.04	538.95
2. Butter, Butterfat & Dairy Spreads	232.21	241.65	70.80	54.60
3. Cheese	127.32	108.20	32.22	33.20
4. Curd	3.35	44.08	6.88	11.20
Total Imports	2,772.57	2,486.29	671.94	638.05

Source: National Dairy Authority and National Statistics Office

[1] To get the LME, NDA uses a conversion factor of 8.02 liters per 1 kg of whole and non-fat dry milk powder and 5.51 liters per 1 kg of cheese

According to trade and industry contacts, imported dairy products are used as follows:

Skim Milk Powder: Recombined sweetened condensed milk, recombined UHT milk, ice cream, infant and follow-on formulas, and medical nutrition formulas.

Whole Milk Powder: Recombined UHT milk, ice cream, infant and follow-on formulas, medical nutrition formulas, and instant powdered milk.

Butter Milk Powder: Recombined sweetened condensed milk, ice cream, and bakery.

Whey Products: Recombined sweetened dairy creamer, ice cream, infant and follow-on formulas, processed meat, processed food, confectionery, bakery, and animal feed.

Cheese Curd: Processed cheese, cheese spreads, and processed food.

Liquid Milk: Retail, primarily organic and extended shelf life (ESL) milk.

Cheese: Retail, quick service restaurants and fast food chains.

Philippine Dairy Exports

Total dairy exports (mainly value added dairy products manufactured using imported dairy products as raw materials, e.g., ice cream etc.) in 2018 are expected to more than double to about 120,000 MT LME. The main markets are Malaysia (23 percent), Singapore (18 percent), and Vietnam (18 percent). Exports are expected to rise as a result of increased regional trade with ASEAN neighbors and duty-free advantages from the ASEAN free trade agreement.

Volume Of Philippine Dairy Exports (In MT, LME)				
	2016	2017	Jan-Mar 2017	Jan-Mar 2018
Milk and Cream	210,406	51,383	11,845	25,520
Butter/Butterfat	663	341	49	19
Cheese	512	618	109	15
Curd	0	0	0	0
TOTAL EXPORTS	211,581	52,342	12,002	25,554

Source: National Dairy Authority and National Statistics Office

Revisions to the PSD Tables

The PSD table for dairy fluid milk underwent a revision in 2017. Historically, this report counted water buffalo in cow's milk production. The table now only factors in dairy cows for cow's milk production. Fluid milk produced by water buffalo is now accounted for in other milk production.

2017 WMP exports were adjusted downwards while and 2017/18 human domestic consumption was increased to reflect a growth in consumption.

Policy:

The Philippine Department of Agriculture (DA) continues to make the development of the Philippine dairy industry a priority with a special emphasis on improving local supply of fresh milk. While the DA accepts that the Philippines cannot compete in the powdered milk market, it believes that it can greatly augment the supply of fresh milk to the market.

The NDA is the DA's primary agency overseeing and aiding the development of the Philippine dairy sector. The NDA aims to accelerate dairy herd build-up and milk production, enhance the dairy business through delivery of technical services, increase coverage of milk feeding programs, and promote milk consumption.

At the heart of the NDA strategy is the *Herd Build-Up Program*. This program aims to expand local dairy production through the importation of dairy animals, embryos and equipment, and through the upgrading of local animals to dairy breeds via breeding programs, the establishment of multiplier farms, and the preservation of existing stocks. The following are sub-programs of the Herd Build-Up Program:

1. Save-the-Herd (STH) - Promotes animal trading, dairy enterprise enhancement and herd conservation. Under this program, the STH partner receives a dairy animal from NDA which he is obligated to rear, condition, and impregnate according to prescribed dairy husbandry management standards.
2. Herd Infusion - Includes importation of dairy stocks, diversification of sources, and local procurement of dairy animals.
3. Improved Breeding Efficiency - Breeding services to maximize the reproductive capacity of dairy animals either through artificial insemination or natural (bull) breeding.
4. Animal Financing - Tailoring of animal loan programs to the dairy business cycle and identifying new sources of affordable loans.
5. “Palit-Baka” Scheme or Dairy Animal Distribution - Refers to the program whereby NDA distributes a potential dairy animal to an eligible participant who, in turn, would eventually provide NDA with a female dairy animal as payment in kind.
6. Upgrading of Local Animals - Artificial insemination of local cattle with 100 percent purebred Holstein-Friesian semen. Calves born from upgrading programs are distributed to new farmers interested in dairying.
7. Breeding/Multiplier Farm Operations - Engaging and encouraging private-public partnerships in producing local-born dairy stocks. There are currently 61 dairy multiplier farms with more than 5,586 dairy animals contributing 4.1 million liters.
8. Bull Loan – Loan program that provides purebred and crossbred dairy bulls to regional field units of the Department of Agriculture or to other project partners for semen production, collection, and processing purposes.

Other NDA program areas include: *Dairy Business Enhancement Program* which infuses enterprise orientation among dairy producers by preparing industry participants by installation of systems, continuous education, training and infrastructure development. *Milk Quality Assurance Program* focuses on the installation of quality-based milk test and payment systems, farm and plant audits and installation of quality control systems; and *Milk Feeding Program* serves as the base market of local dairy farmers.

Source: National Dairy Authority

DA Dairy Goat Program: The NDA intends to embark on a program to increase goat milk production in the country by importing 5,875 dairy goats and distributing them and 1,150 offspring to 750 farmers in 59 provinces throughout the country. The program aims to increase goat milk production by 4.75 million liters by 2022, increase the goat herd by 19,125 head and improve dairy goat production systems through the creation of local sources of dairy goats.

Executive Orders (EO): EO 20 which prescribes the Most Favored Nation tariff schedule for 2017 to 2020 for all products, including dairy products took effect on June 30, 2017. EO 20 is available here <http://tariffcommission.gov.ph/executive-order-20>. Shortly after, Executive Order No. 23 (EO 23) extended the concessions granted in 2012 for certain agricultural products in exchange for the continued implementation of a Quantitative Restriction (QR) on rice.

EO 23 extends the tariff rate reduction for the following dairy products (and other affected products) beyond July 1, 2017: butter to 5 percent from 7 percent; buttermilk to 1 percent from 3 percent; grated cheese to 1 percent from 3 percent. These concessions will remain in place until December 31, 2020 or an amendment to the Agricultural Tariffication Act (which exempts rice from tariffication) is enacted by Congress. The complete text of EO 23 is available here: <http://www.gov.ph/2017/04/27/executive-order-no-23-s-2017/>)

Tariffs: The 2017 MFN and ASEAN Trade in Goods Agreement (ATIGA) tariff rates for dairy and dairy products are as follows.

TARIFF SCHEDULE			
H.S. Code	Description	Rate of Duty	
		MFN	ATIGA
0401	Milk and cream, not concentrated nor containing added sugar or other sweetening matter		
0401.10.00	Of a fat content, by weight, not exceeding 1 percent	3	0
0401.20.00	Of a fat content, by weight, exceeding 1 percent but not exceeding 6 percent	3	0
0401.30.00	Of a fat content, by weight, exceeding 6 percent	3	0
0402	Milk and cream, concentrated or containing added sugar or other sweetening matter		
0402.10.00	In powder, granules or other solid forms, of a fat content, by weight, not exceeding 1.5 percent	1	0
0402.21.00	In powder, granules or other solid forms, of a fat content, by weight, exceeding 1.5 percent		
	Not containing added sugar or other sweetening matter	1	0
0402.29.00	Other	1	0
0402.91.00	Other		
	Not containing added sugar or other sweetening matter	5	0
0402.99.00	Other	5	0
0403	Buttermilk, curdled milk and cream, yogurt, kefir and other fermented or acidified milk and cream, whether or not concentrated or containing added sugar or other sweetening matter or flavored or containing added fruit, nuts or cocoa		
0403.10	Yogurt		
0403.10.10	Containing fruits, nuts, cocoa or flavoring matter; liquid yogurt	7	0
0403.10.20	Other	7	0
0403.90	Other		
0403.90.10	Buttermilk	1	0
0403.90.90	Other	7	0
0404	Whey, whether or not concentrated or containing added sugar or other sweetening		

	matter; products consisting of natural milk constituents, whether or not containing added sugar or other sweetening matter, not elsewhere specified or included		
0404.10.00	Whey or modified whey, whether or not concentrated or containing added sugar or other sweetening matter	1	0
0404.90.00	Other	3	0
0405	Butter or other fats and oils derived from milk; dairy spreads		
0405.10.00	Butter	5	0
0405.20.00	Dairy spreads	7	0
0405.90.00	Other	1	0
0406	Cheese or curd		
0406.10.00	Fresh (unripened or uncured) cheese, including whey cheese, and curd	3	0
0406.20	Grated or powdered cheese, of all kinds:		
0406.20.10	In containers of gross weight exceeding 20 kgs.	1	0
0406.20.90	Others	1	0
0406.30.00	Processed cheese, not grated or powdered	7	0
0406.40.00	Blue-veined cheese	3	0
0406.90.00	Other cheese	7	0

Source: Tariff Commission <http://finder.tariffcommission.gov.ph/>

ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA): The AANZFTA was signed by Australia and New Zealand and the ten ASEAN members in 2009. Since 2010, milk powder, cheese, whey, and buttermilk from Australia and New Zealand are able to enter the Philippines duty-free. U.S. milk powder and whey have a MFN duty of 1 percent, cheese 3-7 percent, and buttermilk 3 percent.

The Philippine tariff commitments under the AANZFTA may be viewed at the following link: http://www.dfat.gov.au/trade/fta/asean/aanzfta/annexes/aanzfta_annex1_philippines_tariffschedule.pdf

Marketing:

The greater Manila area remains the major fresh milk market in the country and is classified into business and consumer sectors. The business sectors include the institutional and retail operations such as coffee shops, hotels, restaurants, supermarkets and small retailers. The consumer sectors include households and schools through the government milk feeding program.

The main targets of local milk processors are the institutional buyers, especially coffee shops. Specialty coffee shops are good markets because of the continuing trend towards coffee consumption as a lifestyle in the country. Locally-sourced, fresh milk dominates this market because of its superior foaming properties, as compared to UHT milk. The major suppliers of fresh milk to coffee shops are processors from Southern Luzon, particularly from Batangas and Laguna. Other suppliers to coffee shops produce UHT milk reconstituted from imported milk powder and packaged under their own brand.

The specialty coffee shop industry is projected to sustain growth of 10-15 percent over the next five years. Analysts attribute this expansion to growing consumer preference for specialty coffee and the

improving image of coffee in general. (Food and Agribusiness Monitor, University of Asia and the Pacific).

Production, Supply and Demand Data Statistics:

Dairy, Milk, Fluid	2017		2018		2019	
Market Begin Year	Jan 2017		Jan 2018		Jan 2019	
Philippines	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Cows In Milk	12	12	12	12	0	12
Cows Milk Production	15	15	16	16	0	17
Other Milk Production	7	7	7	7	0	7
Total Production	22	22	23	23	0	24
Other Imports	65	65	65	68	0	70
Total Imports	65	65	65	68	0	70
Total Supply	87	87	88	91	0	94
Other Exports	0	0	0	0	0	0
Total Exports	0	0	0	0	0	0
Fluid Use Dom. Consum.	76	76	77	80	0	83
Factory Use Consum.	11	11	11	11	0	11
Feed Use Dom. Consum.	0	0	0	0	0	0
Total Dom. Consumption	87	87	88	91	0	94
Total Distribution	87	87	88	91	0	94
(1000 HEAD) ,(1000 MT)						

Dairy, Dry Whole Milk Powder	2017		2018		2019	
Market Begin Year	Jan 2017		Jan 2018		Jan 2019	
Philippines	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	2	2	10	5	0	5
Production	0	0	0	0	0	0
Other Imports	18	18	20	20	0	22
Total Imports	18	18	20	20	0	22
Total Supply	20	20	30	25	0	27
Other Exports	5	5	20	10	0	12
Total Exports	5	5	20	10	0	12
Human Dom. Consumption	5	10	5	10	0	10
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	5	10	5	10	0	10
Total Use	10	15	25	20	0	22
Ending Stocks	10	5	5	5	0	5
Total Distribution	20	20	30	25	0	27
(1000 MT)						

Dairy, Cheese	2017		2018		2019	
Market Begin Year	Jan 2017		Jan 2018		Jan 2019	
Philippines	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	0	0	0	0
Production	2	2	0	2	0	2
Other Imports	24	24	0	26	0	26
Total Imports	24	24	0	26	0	26
Total Supply	26	26	0	28	0	28
Other Exports	1	1	0	1	0	1
Total Exports	1	1	0	1	0	1
Human Dom. Consumption	25	25	0	27	0	27
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	25	25	0	27	0	27
Total Use	26	26	0	28	0	28
Ending Stocks	0	0	0	0	0	0
Total Distribution	26	26	0	28	0	28
(1000 MT)						